



Trends: Fiscal Year 2004

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City of Houston

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The office of the City Controller compiled the following information to assist members of City Council in making the critical financial decisions faced during the budget process. By reviewing the trends in revenues and expenditures, we can get a visual picture of the direction the City of Houston's financial situation is headed.

The City of Houston's general fund revenue for the coming year is expected to be 2% more than the current year, including the new revenues implemented in fiscal year 2003 by the Administration, primarily due to an increase in both property tax revenue and franchise fee revenue. The local economy is struggling like most of the major urban areas in the country.

Our revenue projections indicate that the administration is \$20.7 million higher in predicting gross revenues than we forecast, and therefore we project revenues to be about \$20.7 million short of balancing the budget. This is a severe potential shortfall at a time when budgets have already been cut, leaving little flexibility during the coming year.

Aviation operating expenses are flat, while debt service will increase. About \$26.7 million is budgeted for equity-financed system improvements, considerably less than in prior years. Water & Sewer net revenue margins have not improved.

I hope this graphical approach provides information that will be useful in the fiscal year 2004 budgeting process.



Summary of Graphs

On each page, the numbers are consistent, as follows:

- ☐ **FY 1993 through FY 2002 are actual.**
- ☐ **FY 2003 is the Controller's Office latest estimate for the year.**
- ☐ **FY 2004 for expenditures is the Proposed Budget and for revenue is the Controller's Office latest estimate for FY 2004.**
- ☐ **All figures are presented on the budget basis of accounting which differs in some respects from generally accepted accounting principles.**

General Fund Revenues

Revenues	FY01 Actual	FY02 Actual	FY03 Controller's Estimate	FY04 Controller's Estimate	Foot- note	% change	Admin.'s Proposed Budget	Difference
General Property Tax	\$ 566,592	\$ 612,833	\$ 639,300	\$ 659,000	[a]	3.08%	\$ 664,741	\$ (5,741)
Industrial Assessments	16,906	15,642	16,000	16,000		0.00%	16,350	(350)
Sales Tax	329,705	341,952	321,500	322,000	[b]	0.16%	331,657	(9,657)
Electric Franchise	87,324	91,455	77,000	78,850		2.40%	79,764	(914)
Telephone Franchise	58,290	58,695	58,600	60,000		2.39%	60,944	(944)
Gas Franchise	17,672	13,740	13,500	15,000		11.11%	16,000	(1,000)
Other Franchise	12,473	11,469	12,500	16,000		28.00%	15,897	103
License & Permits	12,580	12,559	17,200	17,000		-1.16%	16,934	66
Intergovernmental	8,074	20,028	22,000	22,000		0.00%	21,167	833
Charges for Services	31,020	31,560	38,000	38,000		0.00%	38,364	(364)
Direct Interfund Services	46,015	62,590	61,400	64,571		5.16%	64,571	0
Indirect Interfund Services	16,961	15,095	15,500	14,600		-5.81%	14,393	207
Muni Courts Fines	40,236	35,208	43,000	43,000		0.00%	44,485	(1,485)
Other Fines & Forfeits	2,800	2,379	2,700	2,800		3.70%	2,815	(15)
Interest	11,108	8,394	6,500	6,000	[c]	-7.69%	7,500	(1,500)
Miscellaneous/Other	9,053	10,994	12,000	9,000		-25.00%	8,905	95
Total Revenues	<u>\$ 1,266,809</u>	<u>\$ 1,344,593</u>	<u>\$ 1,356,700</u>	<u>\$ 1,383,821</u>		1.02%	<u>\$ 1,404,487</u>	<u>\$ (20,666)</u>
Transfer from ALP		24,100	14,100	4,100			4,100	0
Transfer from other funds			20,340					
Total Revenues and Transfer	<u>\$ 1,266,809</u>	<u>\$ 1,368,693</u>	<u>\$ 1,391,140</u>	<u>\$ 1,387,921</u>			<u>\$ 1,408,587</u>	<u>\$ (20,666)</u>
Percentage Increase	5.80%	6.14%	0.90%	2.00%				

Notes

- [a] Property taxes are shown net of refunds. The estimate uses the low end of the range given by the Harris County Appraisal District. This is \$103,455 billion assessed valuation. We have estimated \$20.8 million for tax increment zones, current collections at 97.11%, which is the average for the past 8 years, and \$31 million in delinquent tax, penalties, and interest.
- [b] Sales tax assume the next 6 months at 5% below the prior year, followed by 3 months flat, 3 months with a 2 % increase, and 3 months with a 4% increase. This includes the limited purpose annexations, and is based on the assumption that business investment does not improve until next fall.
- [c] Interest earnings assumes no increase in invested balances, and no increase in rates before calendar 2004.



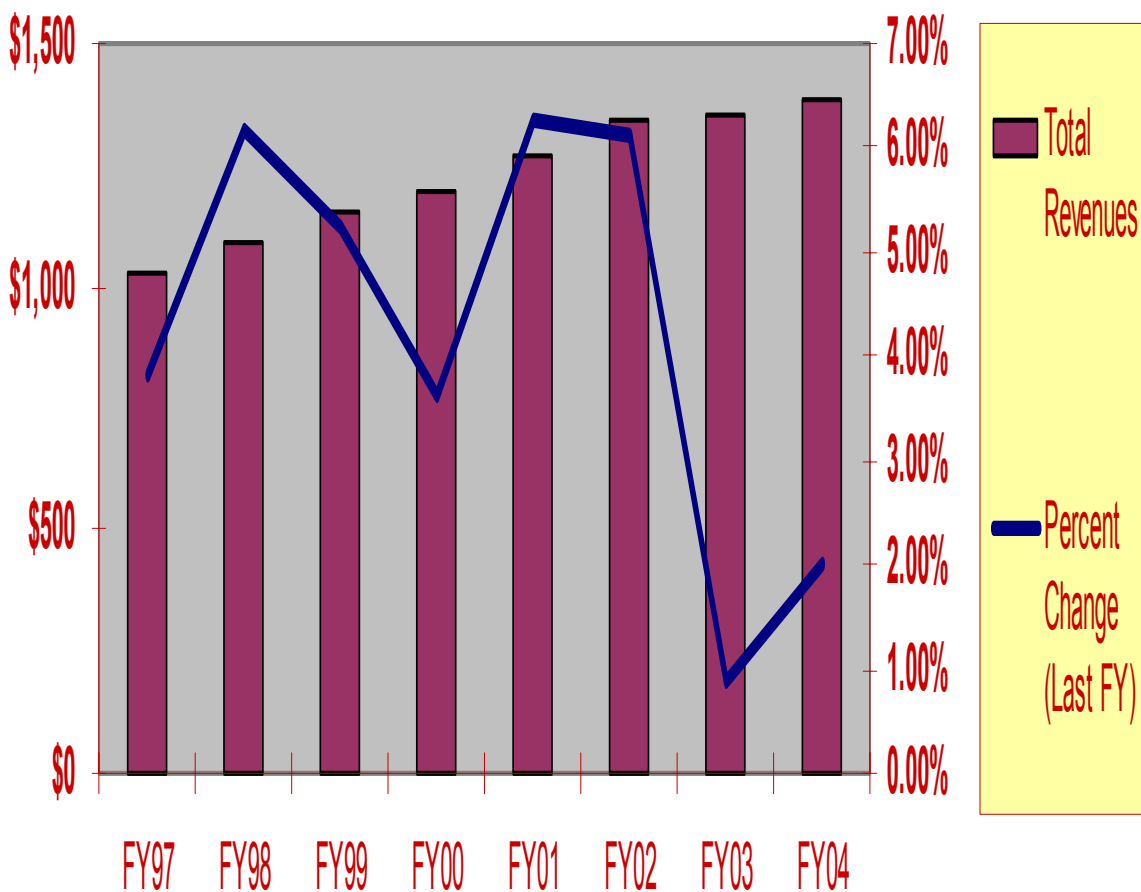
General Fund Revenues

General Fund Revenues, in total, are highly constrained, with a 2% increase overall, totaling \$27.1 million.

	<u>Millions</u>
Property Tax provides the bulk of the increase, with 3% growth	\$19.7
Franchise Fees next, including the annualized effect of new fees in FY 2003, with 5% growth	8.2
All other revenues combined, negative Growth, .15%	<u>(. 8)</u>
	\$27.1

General Fund Revenues

(In Millions)



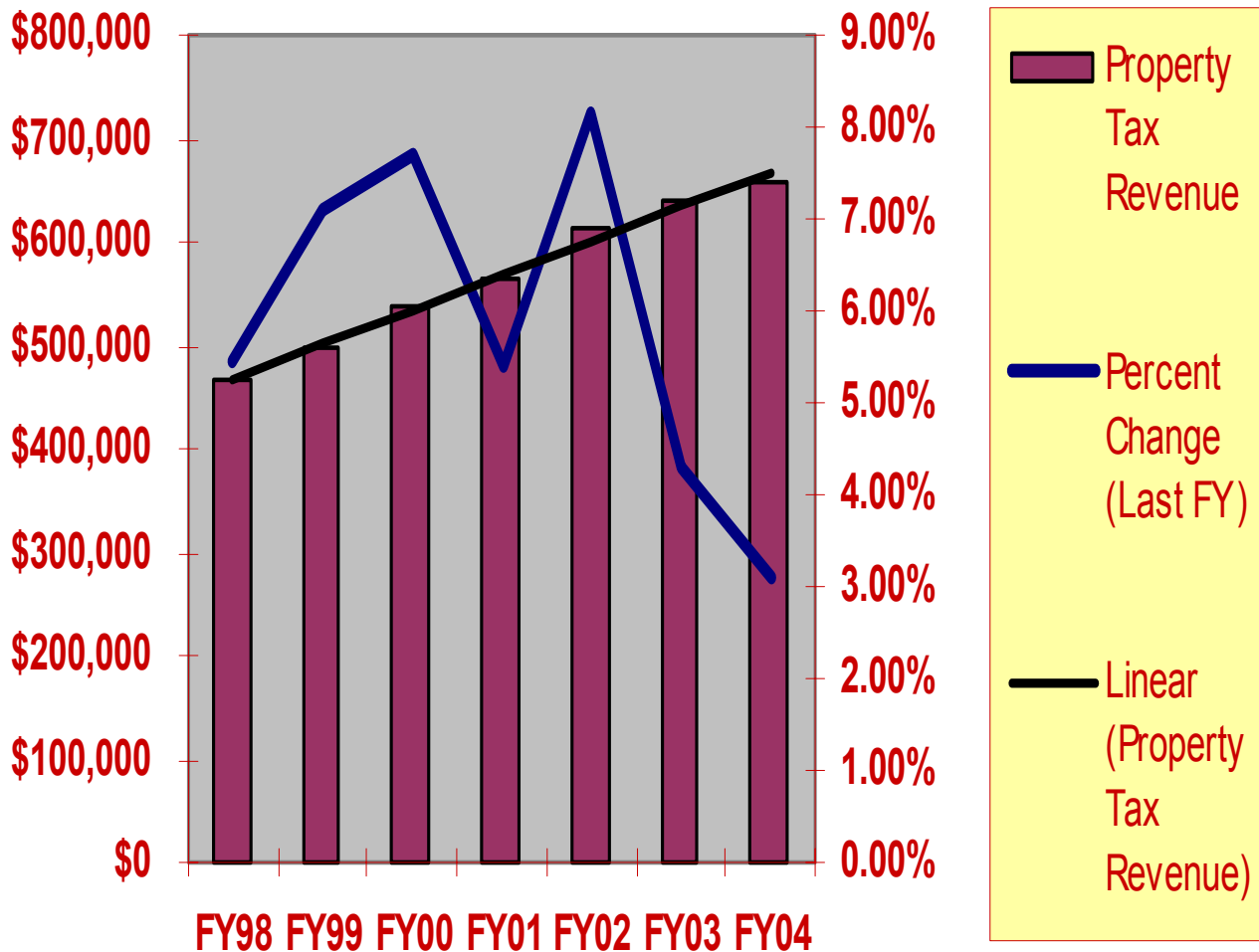


Property Tax Revenues

**Property Tax revenues should be up about 3%.
Assessed values are expected to be up by 4%, but
Tax Increment Zone payments will be up about 24%,
from \$16.8 Million to \$20.8 Million.**

Property Tax Revenues

(In Thousands)



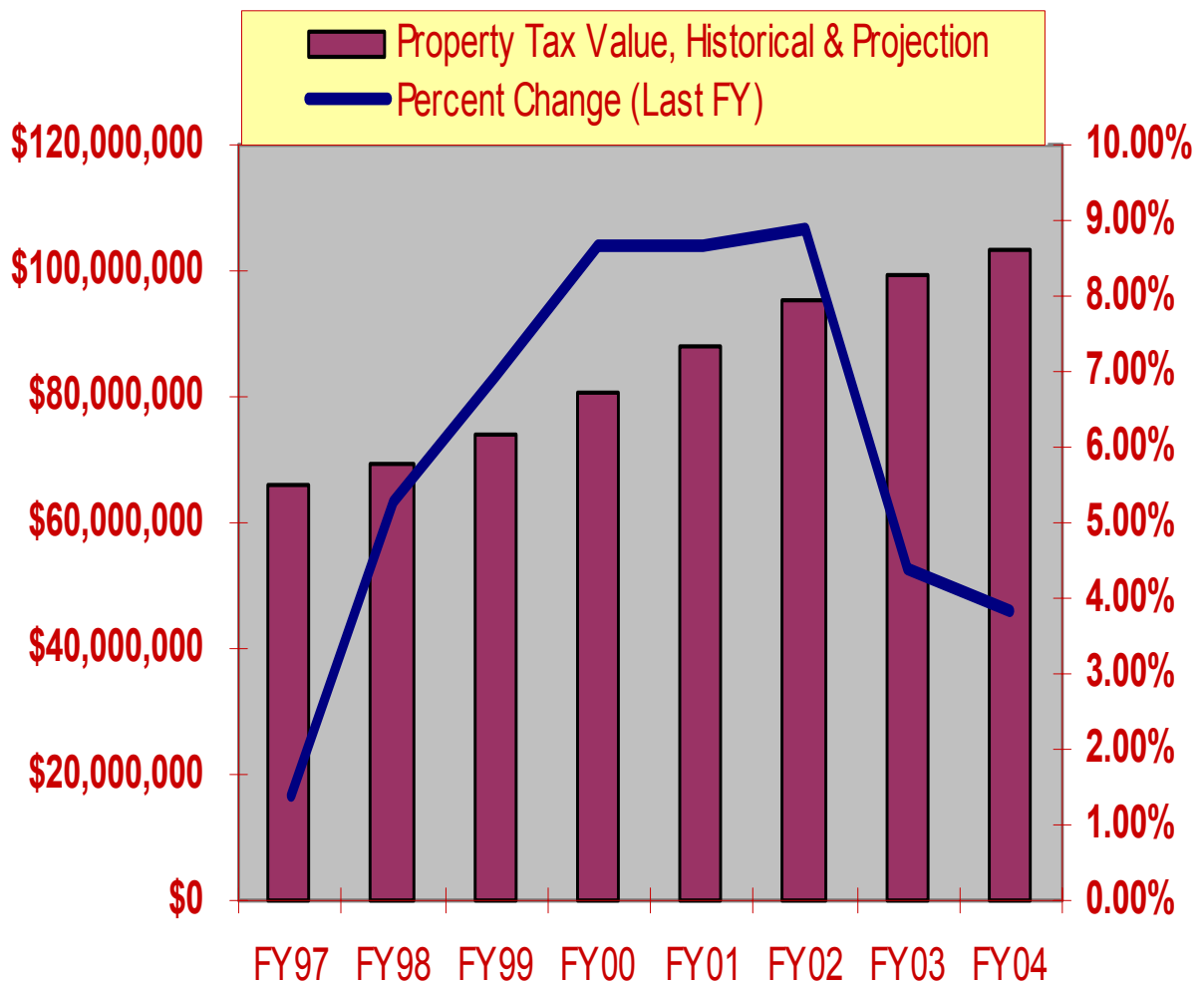


Taxable Values, Historical & Forecast

The overall increase in valuation is about 4%, with the largest increases in single family residential property.

Taxable Values, Historical & Forecast

(In Thousands)



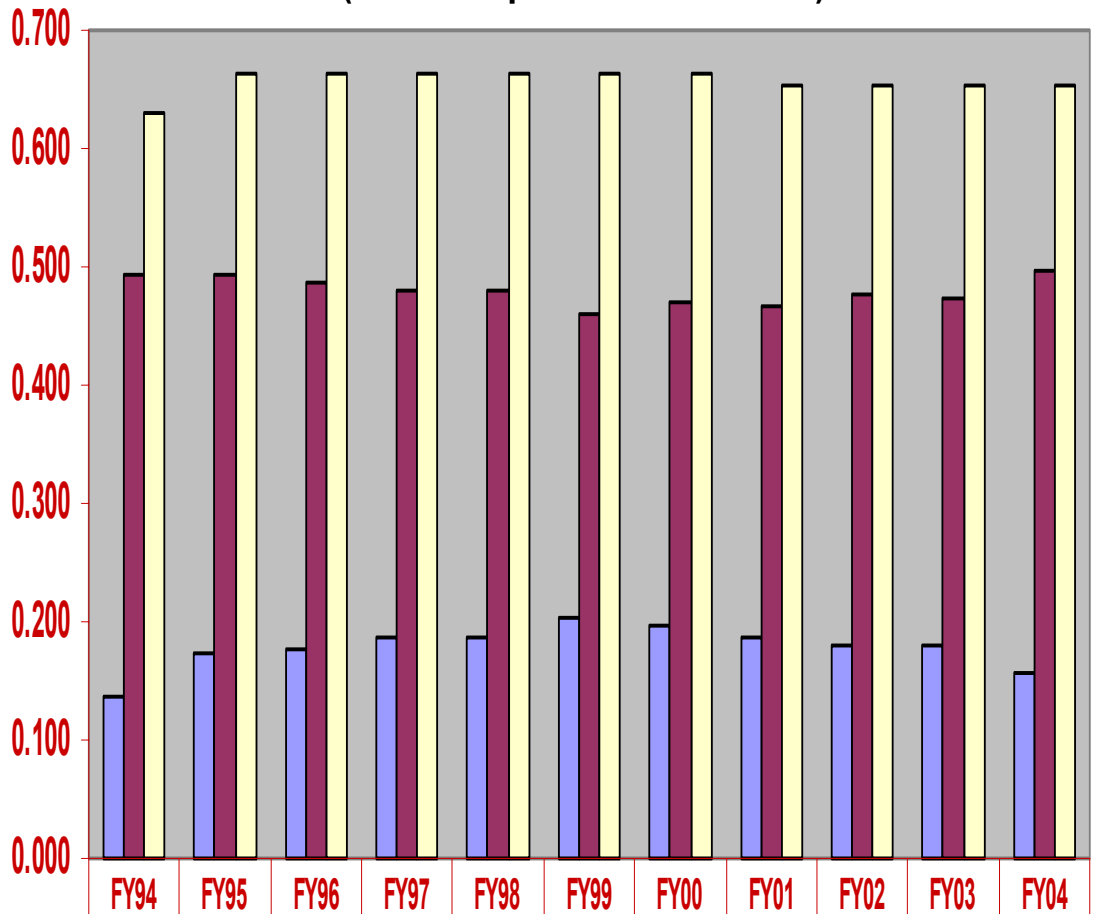


Property Tax Rate

While the total Property Tax rate is the same as the past 3 years, the tax rate for debt service is the lowest since 1994. The tax rate for operations is almost at the maximum 50¢ per \$100 valuation, established by the City Charter.

Property Tax Rate

(Tax Rate per \$100 Valuation)



■ Tax Rate for Debt Service	0.13694	0.17227	0.17767	0.18589	0.18502	0.2043	0.19527	0.18818	0.17899	0.18041	0.158
■ Tax Rate for Operations	0.49306	0.49273	0.48733	0.47911	0.47998	0.4607	0.46973	0.46682	0.47601	0.47459	0.497
■ Total Tax Rate	0.63	0.665	0.665	0.665	0.665	0.665	0.665	0.655	0.655	0.655	0.655



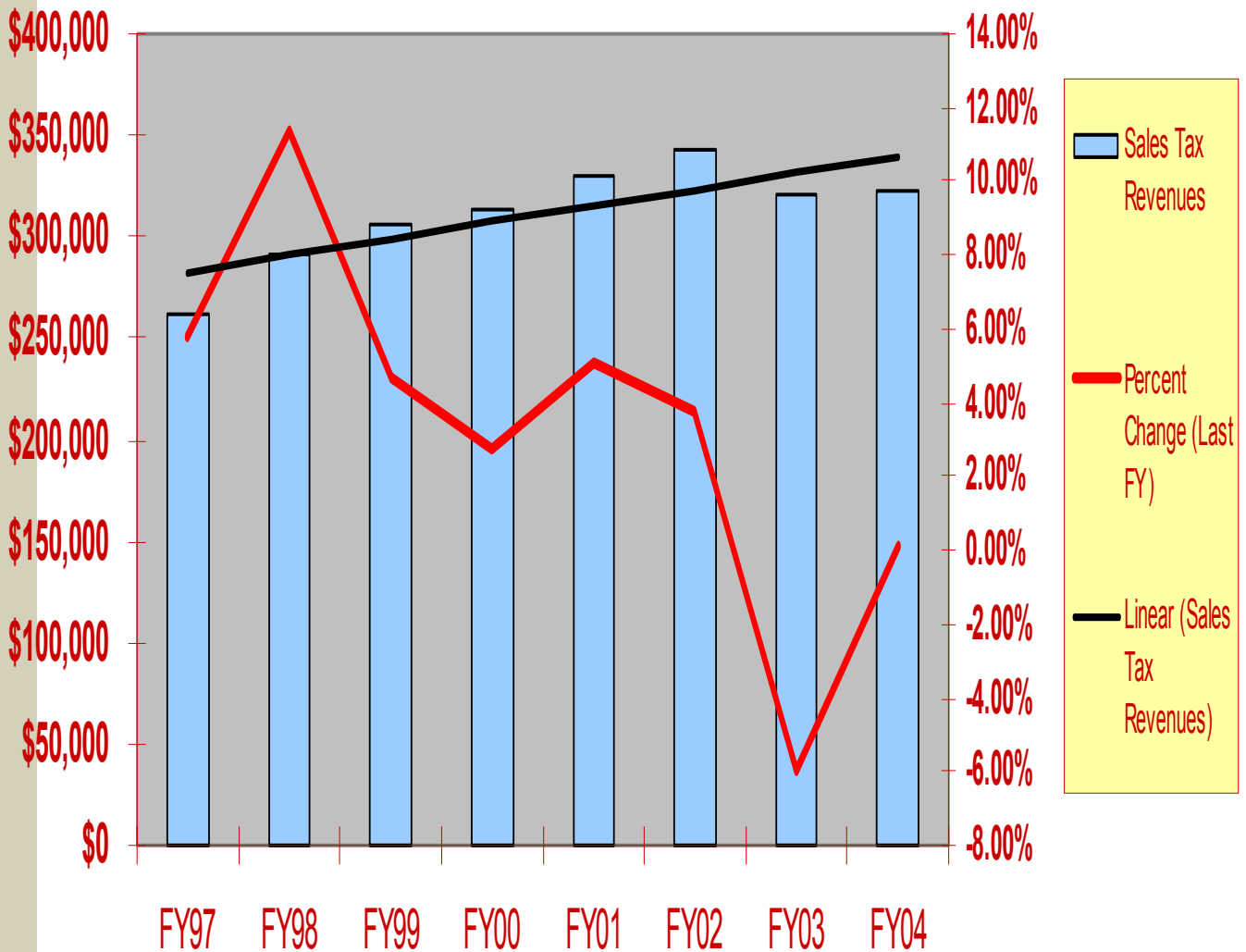
Sales Tax Revenues

We expect Sales Tax revenues for the first three months to continue to be below last year's levels by about 5%, flattening out in October, and increasing by 2% in calendar year 2004.

The business environment is the single most important factor to watch in the first few months of the fiscal year.

Sales Tax Revenues

(In Thousands)



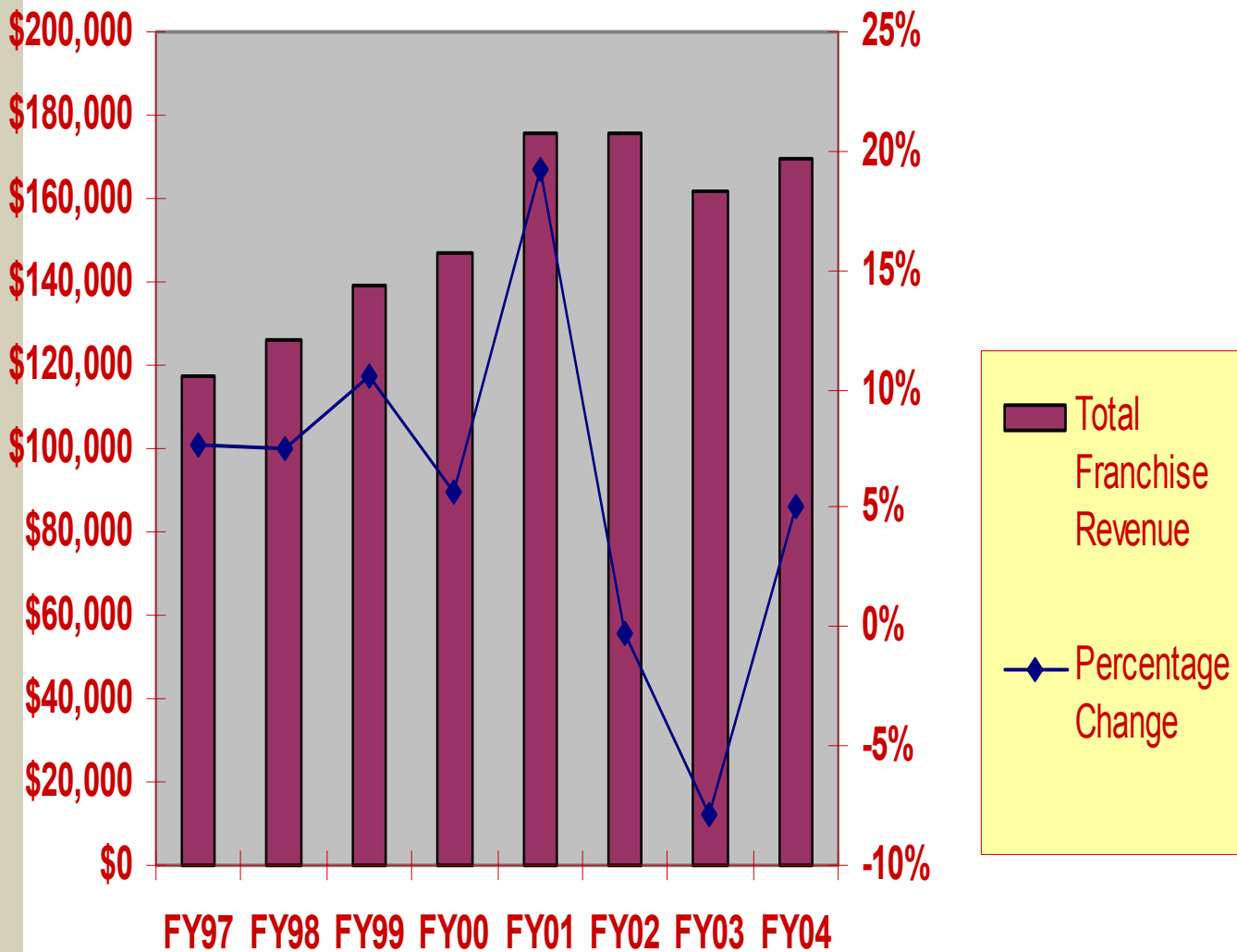


Total Franchise Revenues

Franchise revenues are expected to increase primarily because of continued high natural gas prices, and the annualized effect of the new waste hauler franchise fee.

Total Franchise Revenues

(In Thousands)



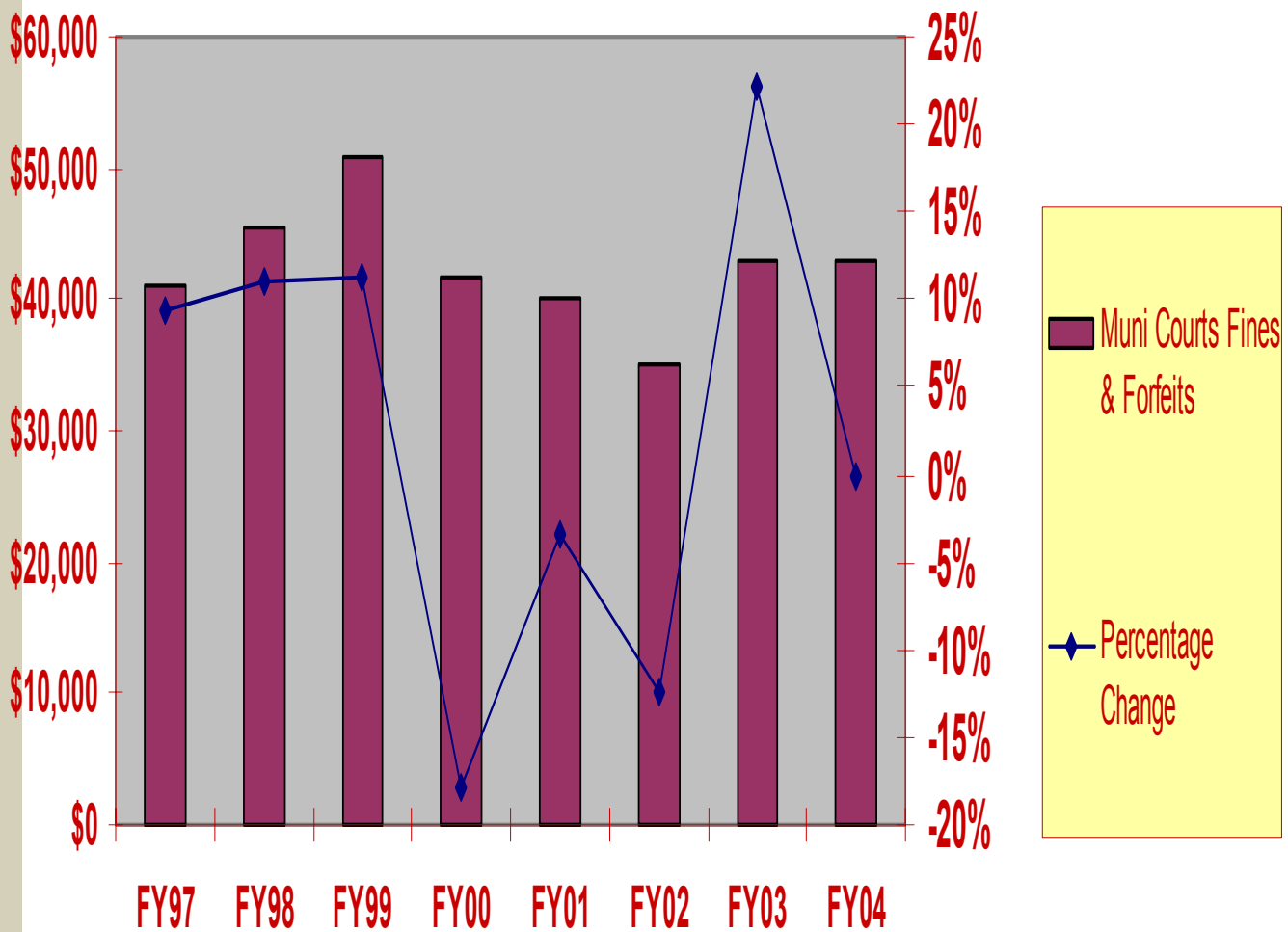


Municipal Courts Revenues

**Municipal Courts revenue can be very volatile.
We are predicting flat revenues, assuming that
moving violations average 76,000 per month and
revenue, per ticket, remains flat.**

Municipal Courts Revenues

(In Thousands)



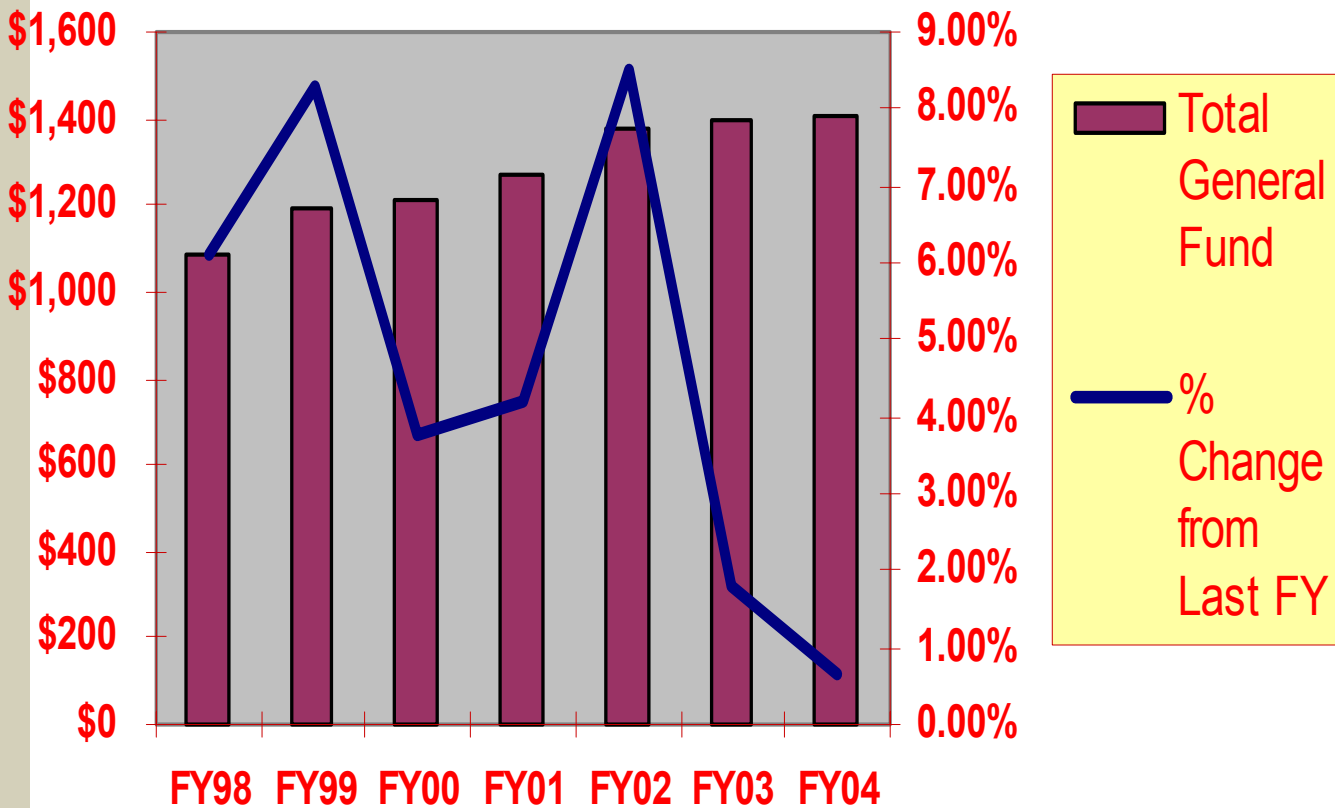


General Fund Expenditure Budget

General Fund expenditures are budgeted at .64% more than estimated expenditures for FY03, an increase in dollars of \$8.9 million. This is the smallest increase in more than 10 years.

General Fund Expenditure Budget

(In Millions)



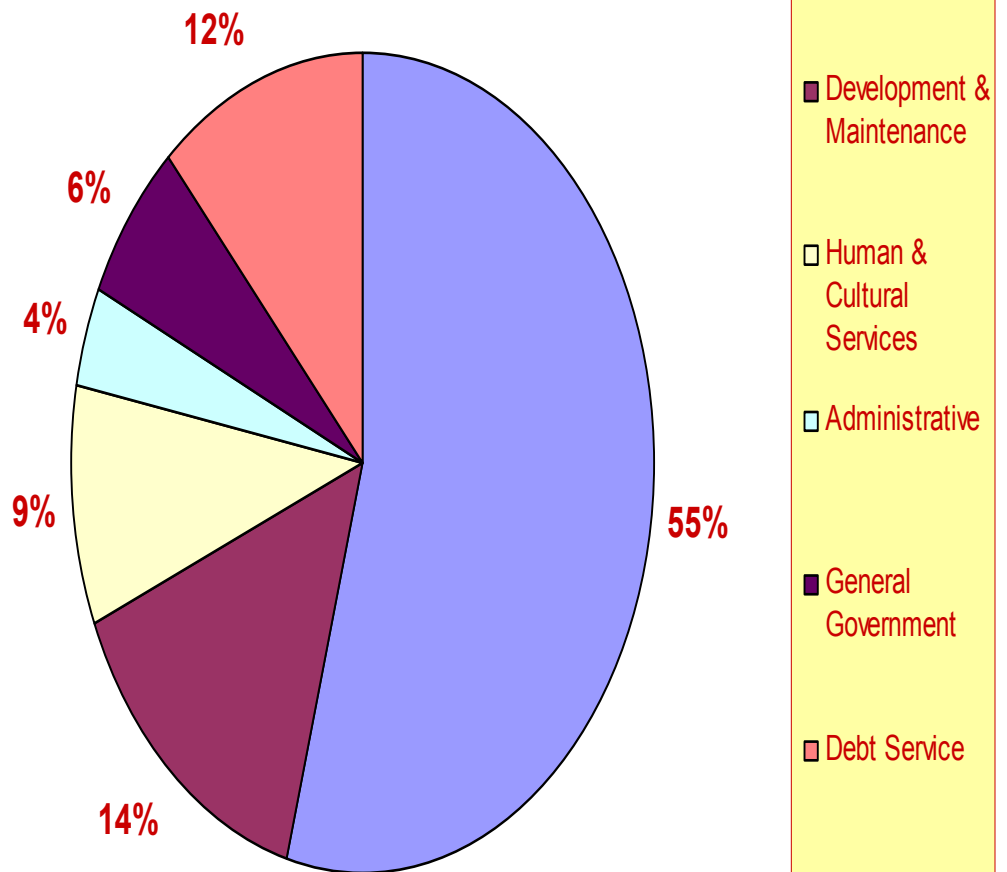


General Fund Expenditures Percent by Function

Total General Fund expenditures are budgeted for less than a 1% increase from FY 2003. On a percentage basis, there is no change in the functional distribution from FY 2003.

General Fund Expenditures Percent by Function

FY 2004



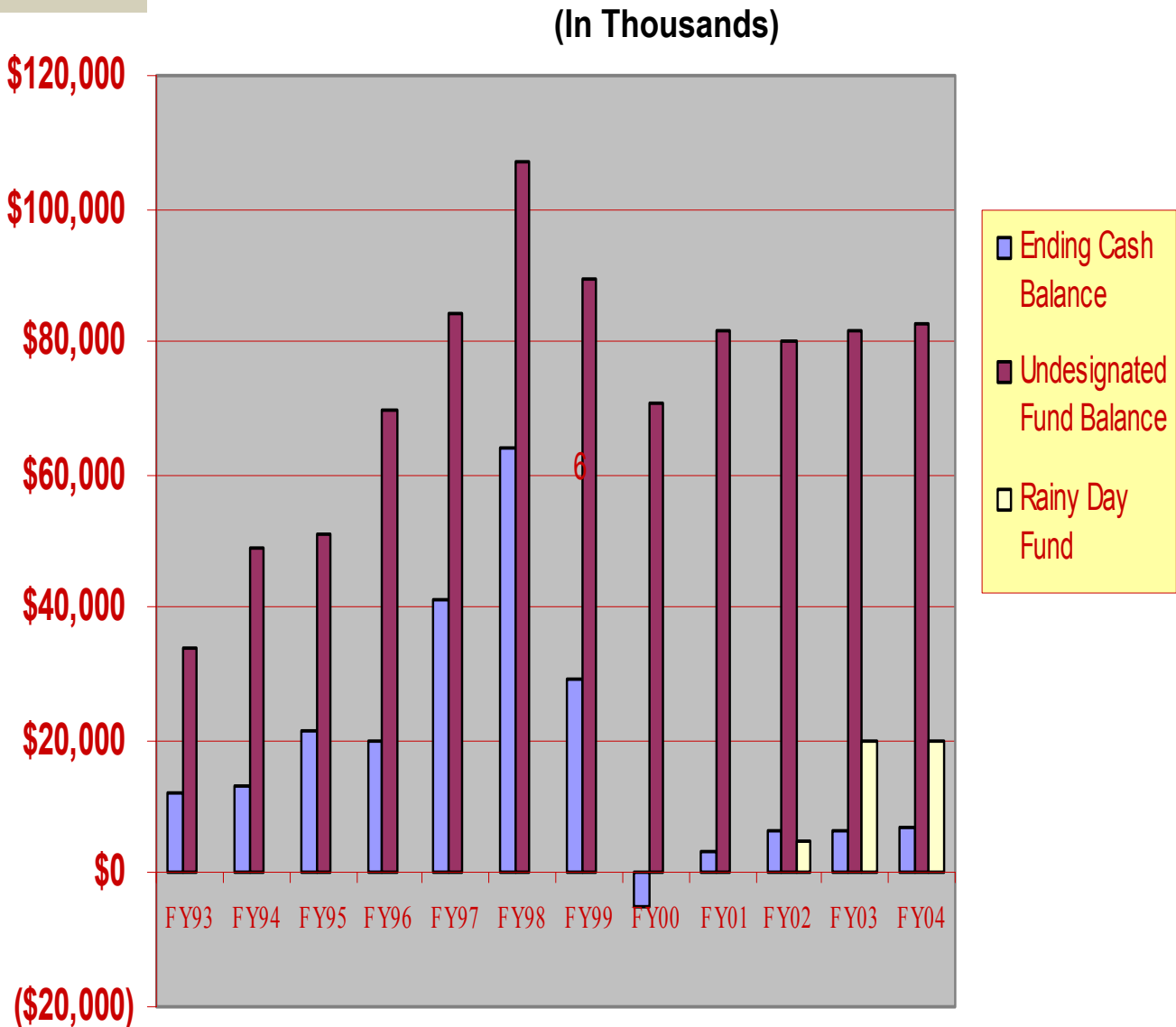


Cash vs. Fund Balance General Fund

Unreserved undesignated fund balance has remained relatively stable for the past 3 years, but still consists primarily of non-cash items (primarily receivables for sales tax and franchise fees).

The Rainy Day Fund now stands at \$20 Million.

Cash vs. Fund Balance General Fund



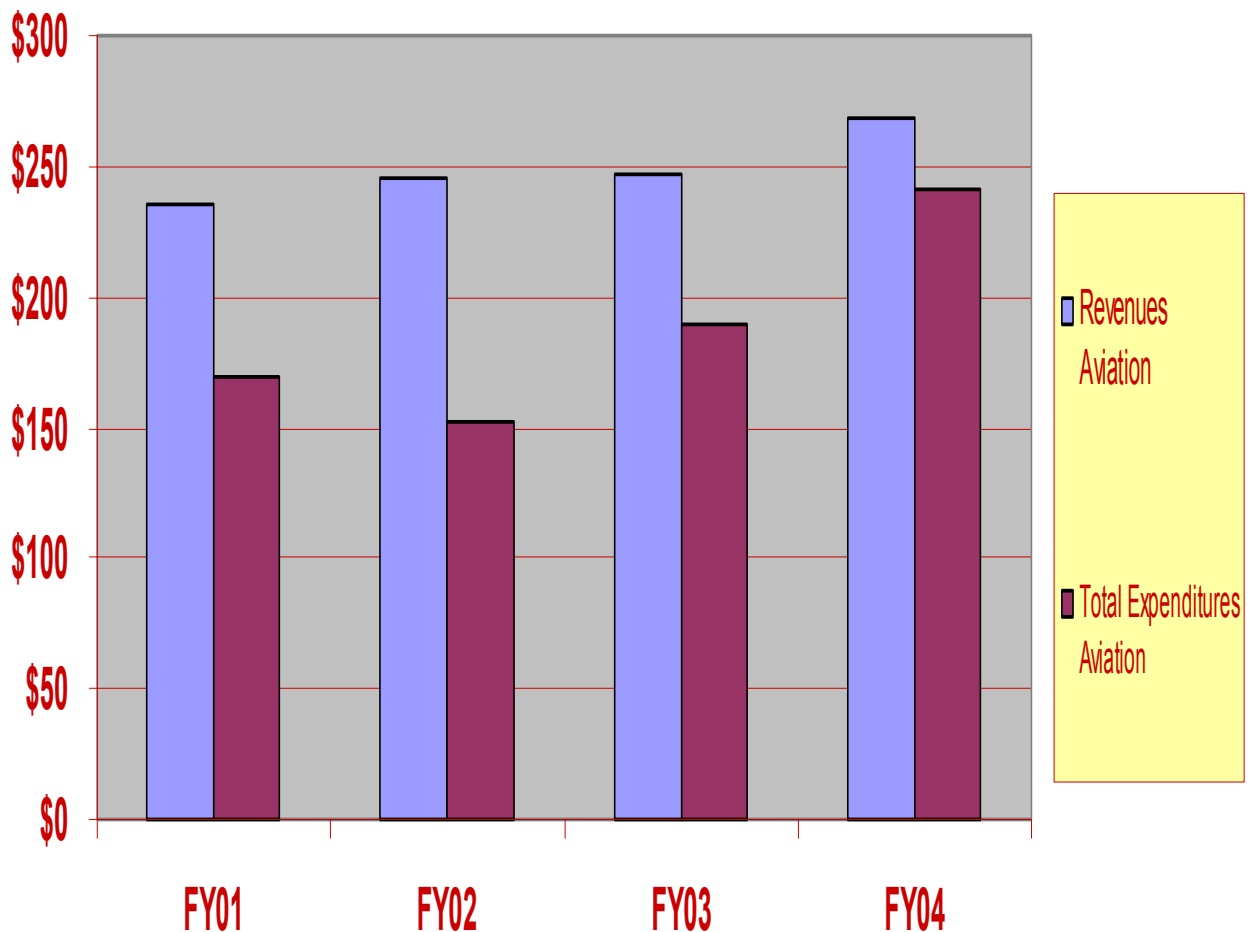


Aviation Revenues & Expenditures

Airport revenue margins continue to narrow. Operating expenses are being tightly controlled. Debt service is the largest increase. Debt service in FY 2002 and FY 2003 was reduced by federal grants applied to pay debt service. To the extent available, additional grants may be able to reduce debt service in FY 2004.

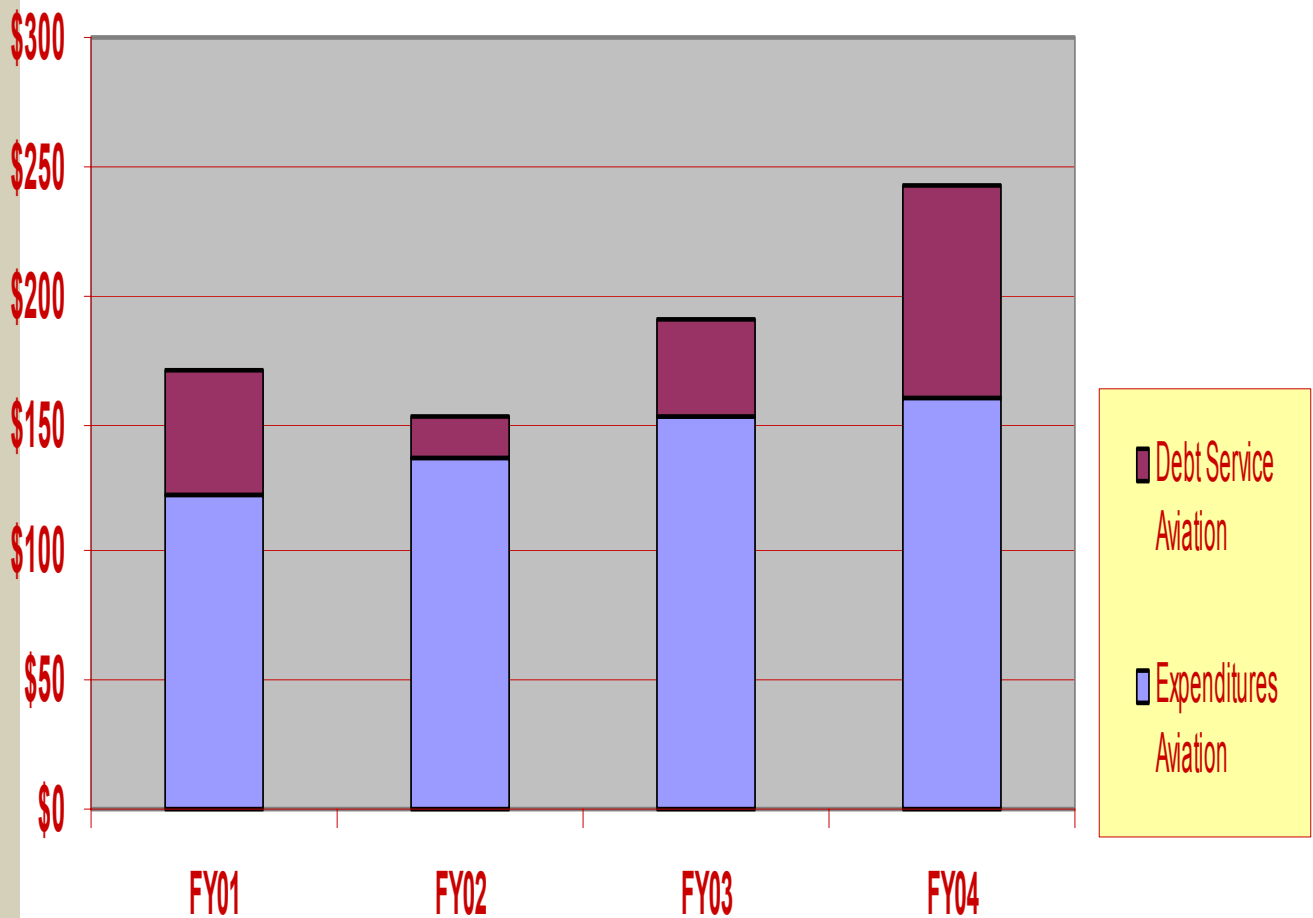
Aviation Revenues & Expenditures

(In Millions)



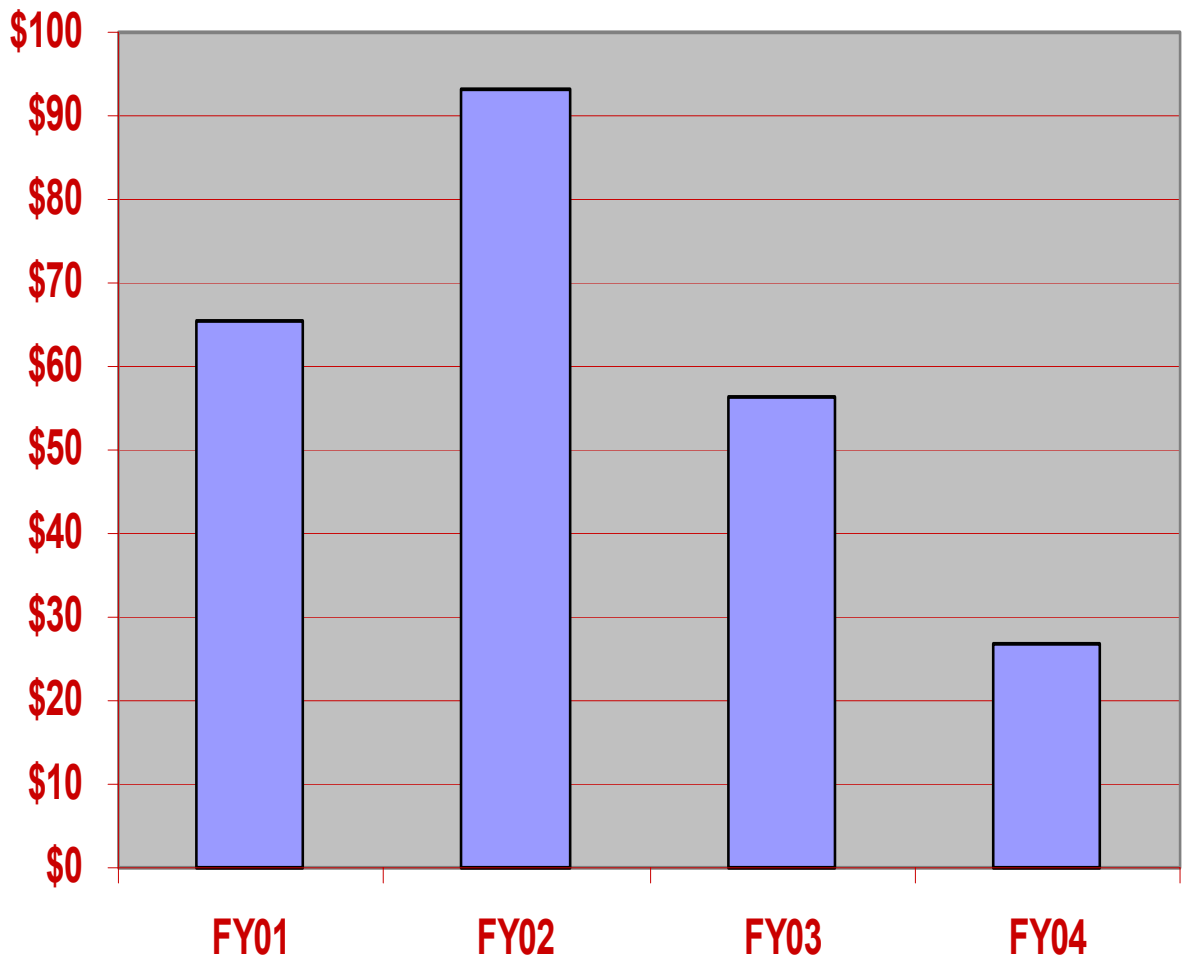
Aviation Expenditures

(In Millions)



Aviation Revenues Less Expenditures

(In Millions)



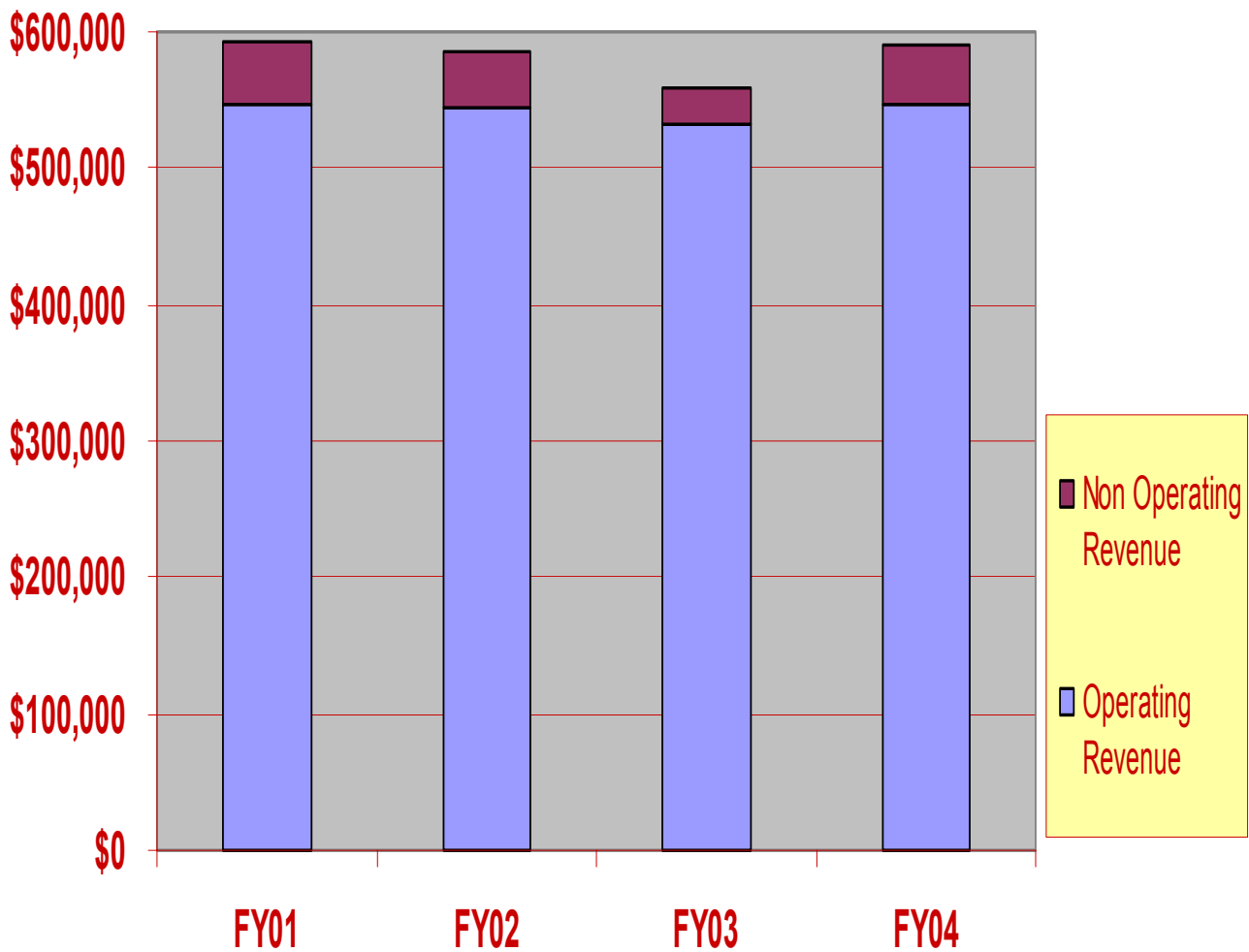


Water & Sewer Revenues

Water and Sewer revenues reflect a decrease in FY 2003 largely due to Interest income, but the forecast for FY 2004 indicates an increase in revenues to the level of FY 2001. The increase in non-operating revenues is due to the contracts signed with the North and West Harris County Water authorities.

Water & Sewer Revenues

(In Thousands)



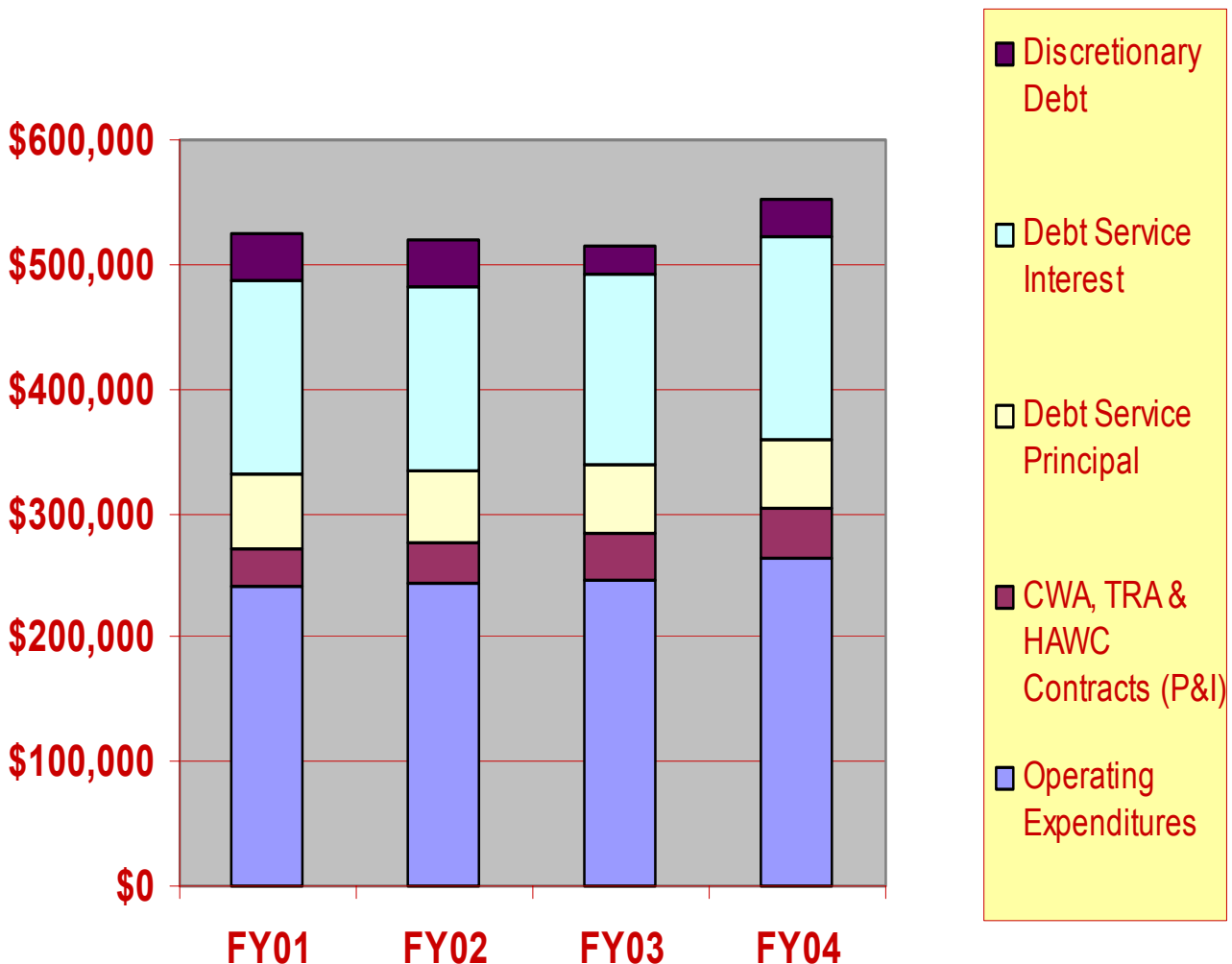


Water & Sewer Operating Expenses

Water and Sewer operating expenditures for FY 2001 through FY 2004 are relatively constant.

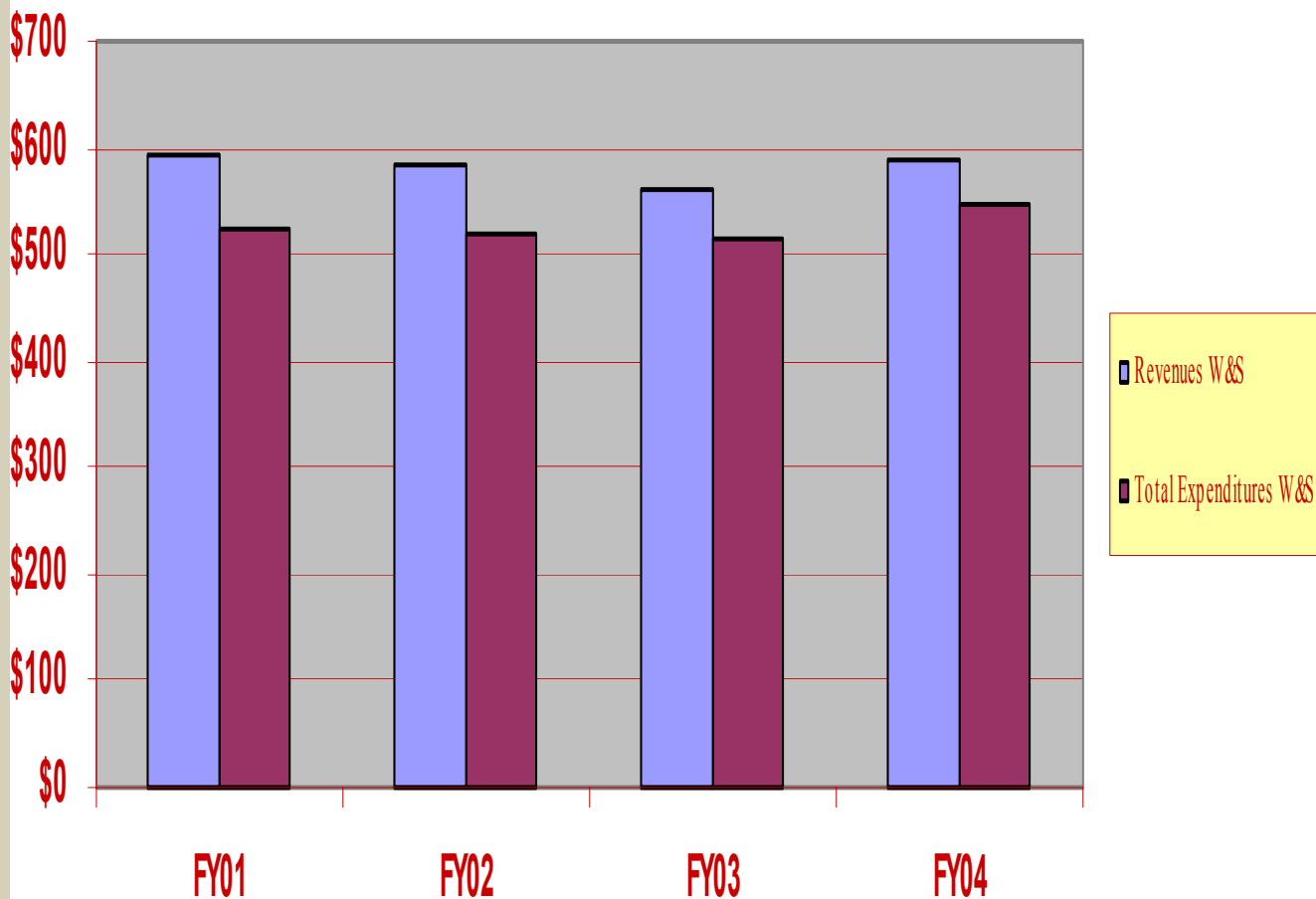
Water & Sewer Operating Expenses by Category

(In Thousands)



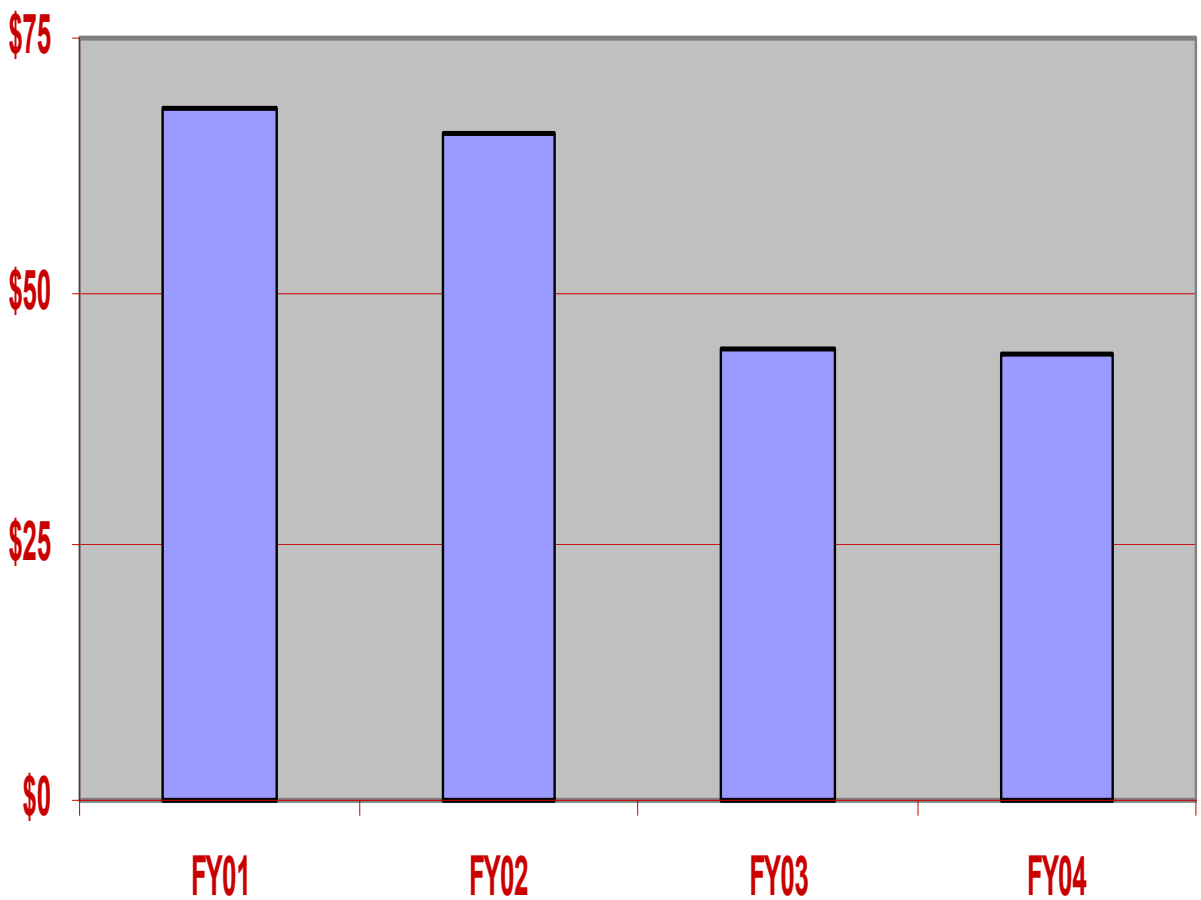
Water & Sewer Revenues and Expenditures

(In Millions)



Water & Sewer Revenues Less Expenditures

(In Millions)



Water & Sewer Uses of Excess Revenues over Expenditures

(In Thousands)

